



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 1/28/2003

GAIN Report #TW3008

Taiwan

Livestock and Products

Semi-Annual

2003

Approved by:

Jonathan P. Gressel

American Institute in Taiwan

Prepared by:

Eric Trachtenberg and Rosemary Kao

Report Highlights:

Beef and pork imports are expected to increase in 2003 as Taiwan's economy recovers and markets are further liberalized following Taiwan's 2002 WTO accession. Taiwan has allocated its 2003 Tariff Rate Quotas for pork belly and pork offals and lowered beef and pork tariffs in compliance with WTO Accession commitments. Taiwan's swine industry is expected to continue declining mainly because of increasing costs and reduced expectations of future exports.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Semi-Annual Report
Taipei [TW1], TW

Table of Contents

| | |
|--|----|
| Executive Summary | 1 |
| BEEF | 2 |
| Table 1. Taiwan Beef Production, Supply and Distribution | 2 |
| Trade | 3 |
| Table 2. Taiwan Beef Imports, 2001 and 2002 | 3 |
| Table 3. Taiwan Beef Offal Import, 2001 and 2002 | 4 |
| Policy | 4 |
| Table 4. Tariff Comparison for Beef and Beef Offal | 5 |
| PORK | 6 |
| Table 5. Taiwan Swine Production, Supply and Distribution | 6 |
| Table 6. Taiwan Pork Production, Supply and Distribution | 7 |
| Production | 8 |
| Table 7. Taiwan Hog Population Data | 9 |
| Table 8. Taiwan Pig Auction Prices | 9 |
| Trade | 10 |
| Table 9. Taiwan Pork Meat Imports, 2001 and 2002 | 10 |
| Policy | 10 |
| Table 10. Taiwan Pork Belly and Pork Offal TRQ | 11 |
| Table 11. Tariff Comparison for Pork Imports Not Subject to TRQs ... | 12 |

Executive Summary

In 2002, the Taiwan economy grew 3.1 percent, reversing its first decline in fifty years. Boosted by firmer exports, economic growth stabilized the New Taiwan Dollar and strengthened consumer purchasing power and beef imports. U.S. market share is expected to increase slightly to more than 20 percent because of rising demand for higher-end U.S. products. However, when tariffs for all qualities of beef are equalized in 2004, the privileged tariff position of U.S. choice and prime beef will end. Imports of beef variety meats were fully liberalized upon Taiwan's WTO entry. Without the cumbersome quota system and with lowered tariffs, imports of beef variety meats should grow moderately in the coming years. However, Australia, instead of the U.S., may take the largest share of the market because of its lower shipping costs.

At the same time, Taiwan's accession to the World Trade Organization (WTO) on January 1, 2002 has brought new opportunities to traders and new challenges to the local livestock industry, especially the swine sector. Upon WTO accession, Taiwan transformed the pre-accession global quotas for pork bellies and pork offal into Tariff Rate Quotas (TRQ) while making wide-ranging tariff reductions and further relaxing import controls. In 2003, the TRQ size for pork bellies and pork offal increased to 10,780 tons and 18,750 tons, respectively. In 2002, according to the Central Trust of China (CTC), the 10,000 mt pork offal TRQ was nearly all filled while the 6,160 mt pork belly TRQ had 1,778 mt unfilled. Country breakdown for TRQ imports is currently not available. Given these trends, it is likely that the 2003 pork offal TRQ will be fully utilized but that pork belly may not. On October 23, 2002, the 2003 TRQs were allocated by lottery to bidders, each receiving 25 metric tons. In 2004, these TRQs for bellies and offals will rise to 15,400 tons and 27,500 tons before being liberalized in 2005. With demand for imported bellies estimated by COA at 10,000 mt and offals at 20,000 mt, the 2004 TRQs may not fill.

Pork imports depend heavily on local pig prices. In 2002, imports increased because of high Taiwan prices, low world prices and post-WTO market liberalization. The local hog industry will likely continue contracting because of falling future export expectations. Since the 1997 Food and Mouth Disease (FMD) outbreak, Taiwan producers have hoped for a resumption of exports, especially to Japan. Despite being disease free since 2000, Taiwan exporters will unlikely be able to export until 2004 at the earliest. Even then, it will be difficult for Taiwan pork to take market share in Japan. The continuing loss of export channels along with rising competition from imports and increasing production costs continue to depress Taiwan swine production. This will likely result in increased import demand for pork meat and offal in the medium-term.

In the long term, the relatively efficient swine industry will stabilize and continue to produce pork for the local market, with imports entering for certain needs, such as for processing or supplementing occasional shortfalls. The demand for pork offal, which supplements the local supply reduced since the 1997 foot-and-mouth disease outbreak, will remain strong in the foreseeable future. Sanitary concerns are likely to keep key competitors, such as South Korea and Mainland China, off the market for several years.

Note: In January 2003, 1 U.S. Dollar = NT\$34.5

BEEF**Table 1. Taiwan Beef Production, Supply and Distribution**

| | | | | | | |
|-----------------------------|---------------------|---------|-------------|---------|--------------------------|---------|
| PSD Table | | | | | | |
| Country | Taiwan | | | | | |
| Commodity | Meat, Beef and Veal | | | | (1000 MT CWE)(1000 HEAD) | |
| | Revised | 2001 | Preliminary | 2002 | Forecast | 2003 |
| | Old | New | Old | New | Old | New |
| Market Year Begin | | 01/2001 | | 01/2002 | | 01/2003 |
| Slaughter (Reference) | 32 | 32 | 0 | 25 | 0 | 25 |
| Beginning Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| Production | 5 | 5 | 5 | 5 | 5 | 5 |
| Intra EC Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Imports | 78 | 77 | 95 | 88 | 100 | 93 |
| TOTAL Imports | 78 | 77 | 95 | 88 | 100 | 93 |
| TOTAL SUPPLY | 83 | 82 | 100 | 93 | 105 | 98 |
| Intra EC Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Human Dom. Consumption | 83 | 82 | 100 | 93 | 105 | 98 |
| Other Use, Losses | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Dom. Consumption | 83 | 82 | 100 | 93 | 105 | 98 |
| Ending Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL DISTRIBUTION | 83 | 82 | 100 | 93 | 105 | 98 |
| Calendar Yr. Imp. from U.S. | 15 | 15 | 17 | 18 | 18 | 19 |
| Calendar Yr. Exp. to U.S. | 0 | 0 | 0 | 0 | 0 | 0 |

[The conversion factor used to derive the carcass weight equivalent (CWE) for beef in the above PSD table is 1.36. Beef variety meats imports are not included in the beef PSD table. The PSD table and Trade table include beef traded under HTS 0201 and 0202. Trade of processed beef, under HTS 021020 and 160250, are negligible (less than 300 mt).]

Trade

Led by stronger exports, the Taiwan economy reversed its first-ever 2001 decline with 3.1 percent growth. The resumption of economic growth stabilized the New Taiwan Dollar and strengthened consumer purchasing power, boosting meat consumption. As a result, CY2002 beef imports rose to an estimated 64,700 mt (88,000 mt CWE). Barring a long-term conflict in the Middle East that could disrupt Taiwan exports and increase oil prices, the Taiwan economy is forecast to continue its recovery with growth expected between 3 and 4 percent in 2003.

Total CY2003 beef imports are forecast to grow by 5 percent to 68,400 mt (93,000 mt CWE) because of Taiwan's improving economy and high local pork prices that encourage substitution to beef. During 2002, the U.S. and Canada increased market share slightly at the expense of New Zealand. In 2003, U.S. market share is expected to increase slightly to more than 20 percent because of increasing purchases of higher-end U.S. products consumed in expensive restaurants. This should partially reverse 2002 gains in market share made by Australia and New Zealand as consumers shifted to less expensive cuts. Any further changes will depend on Taiwan's economy, meat export prices and U.S. exchange rates relative to competitors.

In the long-run, joint marketing efforts by the U.S.- New Zealand-Australia Beef Alliance should increase demand for beef products to more than 70,000 tons. Although not expected until 2004 at the earliest, any resumption of Taiwan pork exports would likely increase local pork prices and encourage beef imports.

Final CY2002 imports totaled 64,705 mt (88,000 mt CWE). This 14 percent increase from 2001 levels resulted primarily from high pork prices and Taiwan's stronger economy.

Table 2. Taiwan Beef Imports, 2001 and 2002 (mt)

| Supplying Source | U.S. | Canada | Australia | New Zealand | Panama | Paraguay | Total |
|------------------|---------------|--------|-----------|-------------|--------|----------|--------|
| 2001 | 10,854 | 3,000 | 28,755 | 14,224 | 71 | 0 | 56,904 |
| - '01 Share (%) | 19% | 5% | 51% | 25% | >1% | 0 | |
| 2002 | 13,167 | 3,604 | 33,227 | 14,703 | 329 | 25 | 65,055 |
| - '02 Share(%) | 20% | 6% | 51% | 22% | >1% | >1% | |

Source: Board of Foreign Trade

Note: This table does not match the PS&D because it is in meat equivalent, not CWE.

Beef Offals

Preliminary 2002 beef offal imports totaled 3,436 mt, a 12 percent increase from 2001. Imports of beef offal were liberalized on January 1, 2002 in line with Taiwan's accession to the WTO, ending the beef offal quota that had been in operation since 1998 and had only a 30 percent fill rate.

Although beef offal imports should stay high because local demand exceeds supply, trade is not expected to increase very rapidly in 2003 because the Taiwan market generally does not offer high prices. Although imports of variety meats should grow in coming years because of increasing use by processors, Australia and New Zealand will likely take the largest market shares because of lower shipping costs to Taiwan than North American suppliers. Since offals are a lower cost product than meat, lower transport costs will give the Australia and New Zealand a competitive advantage. Denmark lost access because of Bovine Spongiform Encephalopathy (BSE) concerns.

Table 3. Taiwan Beef Offal Import, 2001 and 2002 (mt)

| Supplying Source | U.S. | Canada | Australia | New Zealand | Denmark | Total Imports | Quota Size* |
|------------------|--------------|--------|-----------|-------------|---------|---------------|-------------|
| 2001 | 1,043 | 117 | 1,666 | 0 | 319 | 3,145 | 10,000 |
| - '01 Share (%) | 33% | 4% | 53% | 0% | 10% | | |
| 2002 | 718 | 264 | 2,108 | 766 | 0 | 3,856 | Liberalized |
| - '02 Share(%) | 19% | 7% | 55% | 20% | 0% | | |

Source: Board of Foreign Trade

*Full year quota

** Offal imports are not included in the PS&D table.

***2002 table used preliminary data because country breakdowns were not available for final data.

Policy

Tariffs

Taiwan grants a preferential tariff to special quality beef (SQB) to encourage imports of SQB versus lower quality beef that competes with Taiwan's own production. USDA-graded prime or choice beef and Canadian AAA beef are automatically considered SQB while beef from other sources is dutiable at a higher rate. The 2003 non-SQB tariff is NT\$17/kg while for SQB it is NT\$15/kg.

Upon accession to the WTO in 2002, Taiwan cut the tariff rate for SQB to NT\$20/kg and will drop to NT\$10 in 2004. The tariff rate for non-SQB was lowered to NT\$24/kg upon accession and will decline to NT\$10/kg in 2004. The tariff gap between SQB, in which the U.S. dominates, and non-SQB will be narrowed until it no longer exists in 2004. Thus, beef from the U.S. is expected to face stiffer competition in the coming years.

Tariffs for beef offals in 2003 range from 17.5 to 20 percent. Upon Taiwan's WTO accession, import tariffs for beef offal, formerly ranging from 20 to 50 percent with most falling under the 50 percent category, were lowered to 20-25 percent. They will be phased down to 15 percent on January 1, 2004.

Muscle meat such as shin, shank, short plate, brisket, ribs, and rib finger is classified as shin/shank/intercostal (s/s/i) cuts. The duty of U.S. s/s/i has been bound at NT\$23.8/kg with its definition being detailed in the U.S.-Taiwan Beef Agreement in 1990. This preferential duty applies to U.S. s/s/i only, not to Canadian AAA s/s/i, let alone non-SQB s/s/i.

Table 4. Tariff Comparison for Beef and Beef Offal

| Beef Category/Year | 2001 | 2002 | 2003 | 2004 |
|----------------------|-------------|-------------|-------------|-----------|
| Special Quality Beef | NT\$22.1/kg | NT\$20/kg | NT\$15/kg | NT\$10/kg |
| Non-SQB | NT\$27/kg | NT\$24/kg | NT\$17/kg | NT\$10/kg |
| SQB-S/S/I | NT\$23.8/kg | NT\$23.8/kg | NT\$16.9/kg | NT\$10/kg |
| Beef Variety Meats | 20-50% | 20-25% | 17.5-20% | 15% |
| Bovine Bones | 50% | 35% | 35% | 35% |

In order to export meat to Taiwan, a country's meat quarantine inspection and health certification system must be reviewed and found acceptable by the Taiwan authorities. Currently, the only countries eligible to supply beef or beef variety meats to Taiwan are: the United States, Canada, Australia, New Zealand and Panama. Sweden requalified in June 2002. Japanese beef is still barred entry because of BSE concerns.

The Dairy Sector

Domestic beef is obtained mostly from culled dairy cattle and covers only 5 percent of Taiwan's total beef demand. The dairy industry, one of the few profitable agricultural sectors in Taiwan, is expected to shrink following the removal of the import ban on fluid milk in line with the WTO entry. However, Taiwan's dairy industry will survive the negative impact of milk imports since fresh milk is normally supplied locally. After a few years of post WTO accession minor contraction, the Taiwan dairy industry is likely to stabilize and is expected to begin buying seedstock overseas to improve its cattle genetics. Although it has not been tested, Taiwan has reversed its Holstein-only policy and officially, other breeds have market access in line with WTO accession. However, imports of seedstock still require Council of Agriculture approval for "management purposes". The U.S. is the main supplier of genetics to the commercial dairy sector.

PORK**Table 5. Taiwan Swine Production, Supply and Distribution**

| | | | | | | |
|-----------------------------|-----------------------|---------|-------------|---------|-------------|---------|
| PSD Table | | | | | | |
| Country | Taiwan | | | | | |
| Commodity | Animal Numbers, Swine | | | | (1000 HEAD) | |
| | Revised | 2001 | Preliminary | 2002 | Forecast | 2003 |
| | Old | New | Old | New | Old | New |
| Market Year Begin | | 01/2001 | | 01/2002 | | 01/2003 |
| TOTAL Beginning Stocks | 7495 | 7495 | 7165 | 7165 | 7000 | 6793 |
| Sow Beginning Stocks | 915 | 915 | 838 | 838 | 860 | 795 |
| Production (Pig Crop) | 11301 | 11301 | 10300 | 10300 | 10600 | 10000 |
| Intra EC Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL SUPPLY | 18796 | 18796 | 17465 | 17465 | 17600 | 16793 |
| Intra EC Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Sow Slaughter | 0 | 0 | 0 | 0 | 0 | 0 |
| OTHER SLAUGHTER | 10420 | 10420 | 9900 | 9700 | 10000 | 9500 |
| Total Slaughter | 10420 | 10420 | 9900 | 9700 | 10000 | 9500 |
| Loss | 1211 | 1211 | 565 | 565 | 600 | 600 |
| Ending Inventories | 7165 | 7165 | 7000 | 6793 | 7000 | 6800 |
| TOTAL DISTRIBUTION | 18796 | 18796 | 17465 | 17058 | 17600 | 16900 |
| Calendar Yr. Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 |
| Calendar Yr. Exp. to U.S. | 0 | 0 | 0 | 0 | 0 | 0 |

Table 6. Taiwan Pork Production, Supply and Distribution

| | | | | | | |
|-----------------------------|-------------|---------|-------------|---------|--------------------------|---------|
| PSD Table | | | | | | |
| Country | Taiwan | | | | | |
| Commodity | Meat, Swine | | | | (1000 MT CWE)(1000 HEAD) | |
| | Revised | 2001 | Preliminary | 2002 | Forecast | 2003 |
| | Old | New | Old | New | Old | New |
| Market Year Begin | | 01/2001 | | 01/2002 | | 01/2003 |
| Slaughter (Reference) | 10420 | 10420 | 9900 | 9700 | 10000 | 9500 |
| Beginning Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| Production | 962 | 962 | 915 | 907 | 925 | 890 |
| Intra EC Imports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Imports | 14 | 14 | 20 | 28 | 25 | 36 |
| TOTAL Imports | 14 | 14 | 20 | 28 | 25 | 36 |
| TOTAL SUPPLY | 976 | 976 | 935 | 935 | 950 | 926 |
| Intra EC Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Human Dom. Consumption | 976 | 976 | 935 | 935 | 950 | 926 |
| Other Use, Losses | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL Dom. Consumption | 976 | 976 | 935 | 935 | 950 | 926 |
| Ending Stocks | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL DISTRIBUTION | 976 | 976 | 935 | 935 | 950 | 926 |
| Calendar Yr. Imp. from U.S. | 11 | 11 | 15 | 16 | 20 | 20 |
| Calendar Yr. Exp. to U.S. | 0 | 0 | 0 | 0 | 0 | 0 |

[The conversion factor used to derive pork meat to carcass weight equivalent (CWE) is 1.43. Imports of pork bones are also included in the PS&D Table at a conversion factor of 1.0. Imports of pork variety meats (offal) are not included in the PSD table. This report includes pork trade under HTS 0203. Trade of processed pork, under HTS 021011, 021012, 021019, 160241 and 160242, has been negligible (below 500 mt).]

Production

In 2003, pig production (fat pigs slaughtered) is expected to fall to 9.5 million, a 3 percent decline from 9.7 million in 2002. This is down 6 percent from the post-FMD outbreak peak of 10.1 million head in 2001. The most recent pig inventory survey conducted in November 2002 showed continued declines in both standing and breeding pigs.

The decline of Taiwan's swine sector is expected to continue because several factors:

1. Realization that export markets lost because of Taiwan's 1997 Foot and Mouth Disease (FMD) outbreak will not be reestablished in the near term.
2. High feed prices.
3. Increasing post-WTO accession import competition, especially from offals.
4. Rising environmental pressures (especially waste disposal) that will increase costs of production.

The most serious problem facing Taiwan's swine industry is the loss of export channels in the aftermath of the 1997 FMD outbreak. Before 1997, Taiwan was a net exporter of prime pork meat to Japan with the offal left for domestic consumption. The FMD outbreak caused massive losses from closed export markets and the costs of depopulating 30 percent of the swine population (3.8 million head). The number of swine farms fell by almost half from 25,300 in 1997 to 13,000 in 2002, with smaller farms failing the most often. Despite this contraction, 43 percent of total farms still have less than 100 head while 25 percent have less than 20. Most swine production is concentrated in the southwest part of Taiwan in Pingtung, Yunlin, Changhua and Tainan Counties.

With Taiwan FMD-free since 2001, COA hopes to restart exports to Japan in 2004 although they admit this estimate is quite optimistic and dependent on Taiwan avoiding another FMD outbreak. Although BAPHIQ may stop vaccinating for FMD in summer 2003, Taiwan will find it difficult to avoid further outbreaks because of disease introductions by contraband swine imports from China. Even if Taiwan does resume exports, it is very unlikely exports will return to pre-1997 levels because of a loss in marketing channels and positive consumer awareness. In addition, post-WTO offal imports have lowered offal prices by as much as half, from NT\$400 versus NT\$800 per head. This will force pork meat exporters to raise their prices, further reducing their competitiveness. This has created a growing realization that exports will not return to pre-FMD levels which is causing farmers to leave swine production.

Over the next few years, further contraction in domestic production and consolidation of small farms will likely result in increased import demand for pork meat and offal. In the long term, the largely efficient pig industry will continue to produce pork for the local market, with imports mainly for processing or to supplement occasional shortfalls. Pork production will likely stabilize in the next 4 to 5 years because of Taiwan's relatively cost-competitive industry, with current production costs estimated at 1.2 to 1.7 times North American and European levels. After consolidation, these costs should be even lower.

Table 7. Taiwan Hog Population Data

| | May 2001 | Nov. 2001 | May 2002 | Nov. 2002 |
|----------------|-----------|-----------|-----------|-----------|
| No. of farms | 14,764 | 13,753 | 13,024 | 13,043 |
| Pigs on farm | 7,393,524 | 7,164,605 | 6,920,763 | 6,793,843 |
| Boars | 41,718 | 39,086 | 36,640 | 36,574 |
| Sows/gilts | 881,489 | 837,776 | 800,603 | 795,496 |
| Sows | 786,989 | 748,926 | 720,911 | 711,152 |
| Gilts | 94,500 | 88,850 | 79,692 | 84,344 |
| Fattening pigs | 6,470,317 | 6,287,743 | 6,083,520 | 5,961,773 |
| Piglets | 1,085,425 | 1,028,182 | 1,061,922 | 999,256 |
| Under 30 kg | 1,894,081 | 1,773,875 | 1,795,175 | 1,664,814 |
| 30-60 kg | 1,754,628 | 1,748,347 | 1,632,029 | 1,639,698 |
| Above 60 kg | 1,736,183 | 1,737,339 | 1,594,394 | 1,658,005 |

Source: Council of Agriculture

In 2002, the break-even point for hog production was roughly NT\$4,000/100 kg. Taiwan farmers tend to keep the pigs longer (about 6.5 months) on farm than their U.S. counterparts with an average slaughter weight of 110 kg/head. The direct cost of hog production was up from NT\$3,800/100 kg in 2001 and NT\$3,676/100 kg in 2000. (source: Animal Technology Institute, Taiwan)

In 2003, auction prices are expected to stay close to NT\$4,500/100 kg. Last year, the swine sector profited from high auction prices averaging NT\$4,342/100 kg, up 9 percent from a year earlier. Prices were pushed up by higher feed prices and lower production. As a result, Taiwan hog farmers are expected to remain profitable even with increased imports allowed under the WTO. High prices should also help slow the decline in production.

Table 8. Taiwan Pig Auction Prices (NT\$/100 kg)

| CY2001 | CY2002 | 01/2002 | 06/2002 | 08/2002 | 09/2002 | 10/2002 | 11/2002 | 12/2002 |
|--------|--------|---------|---------|---------|---------|---------|---------|---------|
| 3,982 | 4,342 | 4,056 | 4,625 | 4,844 | 4,581 | 4,540 | 4,714 | 4,790 |

Source: Council of Agriculture

* Roughly NT\$34.5=US\$1 in 2001; NT\$35=US\$1 in January 2002 and NT\$34.3 in August-December 2002.

Trade

Post-WTO liberalization and high Taiwan prices resulted in sharply increased imports in 2002, a trend likely to continue in 2003. Low prices in Canada allowed them to take considerable market share from the U.S. in 2002. U.S. market share should remain stable in 2003. If Taiwan pork prices fall, import growth will decline. Given the competitiveness of Taiwan pork production, trading volumes and market shares will be very sensitive to price. Pork offal demand remained very strong in 2001-2002 and is expected to grow slowly in 2003 and beyond as processors find new ways to utilize variety meats.

Table 9. Taiwan Pork Meat Imports, 2001 and 2002 (mt)

| <i>Country</i> | <i>U.S.</i> | <i>Canada</i> | <i>Australia</i> | <i>EU*</i> | <i>Total</i> |
|-----------------|-------------|---------------|------------------|------------|--------------|
| 2001 | 7,293 | 2,211 | 46 | 233 | 9,783 |
| - '01 Share (%) | 75% | 23% | <1% | 2% | |
| 2002 | 11,470 | 7,694 | 61 | 196 | 19,421 |
| - '02 Share (%) | 59% | 40% | <1% | 1% | |

Source: Customs statistics

* Denmark/Sweden

Imports of pork offal will continue to supplement the depressed post-FMD supply in the Taiwan market. Total 2002 pork imports are estimated at 19,421 mt (27,772 mt CWE), including 4,382 mt of bellies (out of 6,160 mt of quota), 9,614 of offals (of a 10,000 mt quota), and 5,425 mt of non-TRQ items. The fill rates for bellies and offals were 71 percent and 96 percent, respectively, were major improvements from the pre-WTO accession quota fill rates. Pork bones made up the largest share of non-TRQ imports, sharply increasing from 2001 levels. Total January - September 2002 trade totaled 2,016 mt, including 732 mt from Canada, 289 mt from Denmark, 100 mt from Australia and 846 mt from the U.S.

Policy

Tariff Rate Quota (TRQ)

Upon Taiwan's WTO accession, the former global quotas for pork bellies and pork offal were transformed into Tariff Rate Quota (TRQ). In 2003, the quotas sizes are 10,780 mt for bellies and 18,750 mt for offal. Tariff rates were also lowered with WTO entry. In 2003, quotas for pork bellies and pork offal increased and tariff rates declined as detailed in Table 10. In 2005, the TRQs will be phased out and duties bound at 12.5% for pork meat and 15% for pork offal.

Table 10. Taiwan Pork Belly and Pork Offal TRQ

| | Pork Bellies | | | Pork Offal | | |
|-----------------------|--------------|--------|--------|------------|--------|--------|
| | 2002 | 2003 | 2004 | 2002 | 2003 | 2004 |
| Tariff Rate (%) | 15 | 13.7 | 12.5 | 25 | 20 | 15 |
| TRQ Qty. (mt) | 6,160 | 10,780 | 15,400 | 10,000 | 18,750 | 27,500 |
| Out-of-Quota Rate (%) | 60 | 55 | 50 | 310 | 287.5 | 265 |

All the TRQ items are now categorized under Chapter 98 of Taiwan's Tariff Schedule. Pork products not subject to TRQ or that enter when TRQ levels have been exceeded (subject to out-of-quota rates) are classified under the original tariff classification in Chapter 2 (for uncooked meat), Chapter 5 (for animal offal) and Chapter 16 (for processed meat).

TRQ Utilization

Total 2002 TRQ imports were 4,382 mt for pork belly and 9,614 mt for pork offal. (Source: Central Trust of China) According to CTC, the 10,000 mt pork offal TRQ was nearly all filled while the 6,160 mt pork belly TRQ had 1,778 mt unfilled. Belly spare ribs (soft ribs) have been the most popular items in the belly quota. Country breakdown for TRQ imports were not available. Given these trends, it is likely that the 2003 pork offal TRQ will be fully utilized but that pork belly may not. With demand for imported bellies estimated by COA at 10,000 mt and offals at 20,000 mt, the 2004 TRQs may not fill.

TRQ Regulations

On October 23, 2002., the 2003 TRQ for pork belly was allocated through a lottery. The 2003 TRQ performance bond (NT\$2,150/mt for pork belly and NT\$2,200/mt for pork offal) must be paid by June 1, 2003, which is two months earlier than under the 2002 TRQ mechanism.

Quotas are tradeable. Under the terms of Taiwan's WTO accession agreement, TRQ certificates are valid from January 1 to September 1 and can be extended to December 31 upon presentation of a signed contract. Arrival dates can be postponed to December 31, 2002 if a signed contract is presented to the Central Trust of China (CTC) before the deadline (application made to CTC from August 1 to 25, 2002). Unused TRQs will be reallocated.

Non-TRQ Duties

Effective January 1, 2002, Taiwan redefined “pork offals” to include only hocks, feet, skirt, guts (including intestines and rectum) and stomachs. Remaining pork variety meats were liberalized with WTO entry. Items such as kidneys, tails and hearts no longer require a quota and are effectively liberalized.

The out-of-quota rates for pork bellies fell to 55 percent in 2003 and will decline to 50 percent in 2004. Out-of-quota rates for pork offal are 287.5 percent in 2003 and will be 265 percent in 2004. Imports will be liberalized in 2005 and tariffs for all pork offals will go down to 15 percent. A tariff comparison for other pork products not subject to TRQ is listed below:

Table 11. Tariff Comparison for Pork Imports Not Subject to TRQs (%)

| Pork Category/Year | 2002 | 2003 | 2004 |
|-----------------------------------|------|------|------|
| Carcass, Hams, Shoulders and Cuts | 15 | 13.7 | 12.5 |
| Other Pork Cuts | 14 | 13.2 | 12.5 |
| Non-TRQ Variety Meats | 25 | 20 | 15 |
| Pork Bones | 35 | 35 | 35 |
| Pork Tendon* | 25 | 20 | 15 |

* Imports of pork tendon were liberalized in 2002 upon WTO entry, meaning that quota certificates are no longer required. However, the import duty for this item was raised from 15% to 25% in 2002. To Post’s knowledge, this is the only agricultural item subject to a higher tariff after Taiwan’s WTO accession.

Special Safeguards

Both pork bellies and pork offal are subject to a Special Safeguards (SSG) regime, based on Article 5 of the WTO Agreement on Agriculture. According to the calculations of the Council of Agriculture (COA), the trigger level for pork belly imports is 12,886 mt and for pork offal it is 21,376 mt. Although demand for pork offal is strong, the high out-of-quota duty will strongly discourage imports above the TRQ level. Lower out-of-TRQ duties make it possible but still unlikely that pork bellies will exceed SSG trigger levels in 2003. Given the low 2002 TRQ and high out of quota rates, it is unlikely that imports will rise above SSG trigger levels until 2004 when the TRQs rise above them. Although liberalization in 2005 could likely trigger SSG duties, some industry sources do not believe import demand will be strong enough to trigger a SSG response.

Sanitary Regulations

In order to export meat to Taiwan, a country's meat quarantine inspection and health certification system must be approved by the Taiwan authorities. Taiwan currently allows imports of pork/pork offal from the U.S., Australia, New Zealand, Canada, Denmark, Sweden and Hungary. A Dutch request to export pork to Taiwan in 2001 was rejected after a European FMD outbreak although other EU countries have applied for import permission. Korea's application for FMD-free recognition was also denied in December 2001. South Korean pork offal could be very competitive if allowed entry. Paraguay was also disqualified in 2002 because of FMD.

Countries not currently approved to export meat products to Taiwan must formally apply for approval. The approval process requires bilateral negotiations and on-site inspections of production and processing facilities that can take several years to complete. FMD concerns are likely to keep competitive South Korean pork products off the Taiwan market for at least two-to-three years. Disease problems complicated by cross-strait political issues will likely keep PRC pork off the Taiwan market for an extended period (see below).

Checkoff Program

Starting January 1, 2003, Taiwan collected a NT\$10/head fee to fund a checkoff program for price stabilization, research and marketing. COA plans to expand this to other livestock and poultry sectors. There were no further details available on how the money will be spent.

China and Taiwan Swine Sector Investment

Currently Mainland Chinese pork, pork offals, and pork products are banned entry into Taiwan. Taiwan is expected to gradually relax these administrative controls, but the Mainland will still face stiff SPS hurdles in exporting to Taiwan. Even if permitted, imports from the Mainland would face other barriers such as the lack of a working relationship between China and Taiwan's quarantine services and the lack of direct shipping routes. Taiwan authorities have also banned investment by Taiwan companies in Mainland livestock and meat packing operations although there may be covert investment in these sectors.

In recent years, uncertainties stemming from Taiwan's post-WTO trade liberalization discouraged Taiwan's swine industry from investing in imported breeding stock. To remain competitive, the industry is expected to buy seedstock overseas to improve Taiwan's swine genetics. In 2002, Taiwan imported 25 pigs as breeding stock from Canada. Taiwan previously allowed only 4 lines of purebred pigs, Hampshire, Yorkshire, Duroc and Lanrace, to be imported for breeding purposes but this limit has been lifted in line with WTO accession. However, imports of breeding pigs still require a Council of Agriculture approval for "management purposes".

Internet Resources

Many of the Taiwan (.tw) websites are only in Chinese, but English content is increasingly available.

<http://www.coa.gov.tw/english/index.htm> for agricultural statistics and general agricultural information (in English).

<http://www.baphiq.gov.tw> for Taiwan quarantine requirements (English version available).

<http://www.trade.gov.tw/english/index.htm> for trade statistics, trade rules, TRQ bidding rules and general trade information (English version available).

<http://www.wto.org> The WTO's website for adoption of Taiwan's WTO accession.

<http://www.docamof.gov.tw> for tariff reduction schedule (soon in English) and TRQ implementation measures.

<http://www.ctoc.com.tw/English/Default.asp> Central Trust of China's TRQ announcement (English version available).

<http://wwweng.dgoc.gov.tw/english.asp> for Special Safeguards application (English version available).

<http://www.naif.org.tw> for pig auction prices and pork retail prices (Chinese only).